



**INTERNATIONAL FEDERATION  
OF ACCOUNTANTS**

545 Fifth Avenue, 14th Floor  
New York, New York 10017  
Internet: <http://www.ifac.org>

Tel: +1 (212) 286-9344  
Fax: +1 (212) 856-9420

## Agenda Item

# 9

**Committee:** IAASB  
**Meeting Location:** New York  
**Meeting Date:** July 21-25, 2003

### **Auditor's Responsibility to Consider Fraud In an Audit of Financial Statements**

#### **Objectives of Agenda Item**

To complete the review of the exposure draft *Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements* and to approve the document for issuance.

#### **Background**

At the May 2003 meeting, the IAASB received a first draft of an exposure draft to revise ISA 240 *Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements* and provided comment on the black letter requirements. As agreed by the IAASB the draft was based on existing ISA 240, incorporating the basic principles and essential procedures of SAS 99 and separating fraud and error.

#### **Activities Since Last IAASB Discussions**

The Task Force met on June 3-4, 2003 and held a conference call on June 23, 2003 to complete its discussions of the sections of the draft dealing with Communications, Documentation and the Appendices which had not previously been debated by the Task Force, and to respond to the IAASB comments on the black letter requirements.

##### **1. EARNINGS MANAGEMENT**

The IAASB requested more discussion on the topic of Earnings Management and requested that the Task Force consider providing a definition. The Task Force felt that it was not appropriate within this ISA to include a definition of earnings management. However, the Task Force has provided more guidance on this subject, including providing a description of activities that would constitute earnings management.

##### **2. HONESTY AND INTEGRITY OF OTHOSE CHARGED WITH GOVERNANCE**

The draft presented at the May 2003 meeting required the auditor to conduct the audit recognizing the possibility that a material misstatement due to fraud could exist regardless of any past experience with the entity and regardless of the auditor's belief about the honesty and integrity of management. In further considering this paragraph, the Task Force believes that it

should also apply to those charged with governance. Therefore, paragraph 22 of the ED requires the auditor to conduct the audit recognizing the possibility that a material misstatement due to fraud could exist regardless of the auditor's belief about the honesty of management and of those charged with governance.

**Material Presented**

Agenda Item 9-A            Proposed Exposure Draft  
(Pages 971 – 1004)

**Action Requested**

IAASB is asked to review the draft ISA and approve it for release as an exposure draft, with an exposure period ending on October 31, 2003.